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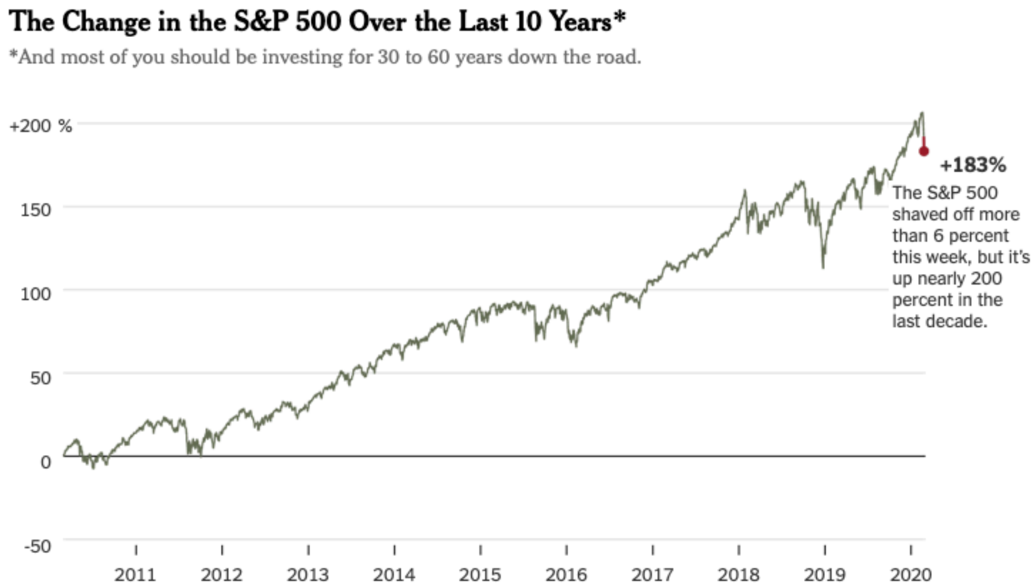
Global Market Strategy – March 2020

Market goes on sale

It has been the worst week for stock markets since the financial crash in 2008, evidenced by the US Dow Jones going from a record high to correction (usually defined as down 10% but in this case the Dow fell 15.5%) in a record 10 sessions, and the VIX volatility index rising over 100% in a week.

For those who have been shut out of the US Stockmarket, afraid to buy stocks at ostensibly high levels, the corona virus has come as manna from heaven. The US market, supported by strong employment, a healthy wage base and a growing economy in contrast to most of the rest of the world, saw average price earnings levels rise above 19 one month ago. Now the average is just over 17, and if the virus exacerbates it could get down to 16 which would make shares a screaming buy, instead of, as they are now, a decent buy.

You can see by the futures each day that the market wants to rally. Other than Thursday and Friday, futures each day for the last ten days in the US indicated a rise at the market open. This followed through momentarily, only for more warnings of damage to corporate earnings to beat stocks down by the end of the day's trading.



Source: New York Times 27th February 2020

As market capitalisations reduce, yields rise, and that's another reason why the current sell-off is an opportune buy. Interest rates won't rise any time soon. Those with capital available are fortunate indeed; they can buy the likes of Mastercard, Apple, McDonalds, Microsoft, PepsiCo, Intel, Garmin, Disney, Paychex with yields between 1.10-3.05%.. All have a good balance sheet, good returns on equity and healthy margins but they have all be caught in the algorithmic exaggeration of downdraft trading. UK business owner-directors with cash on the company balance sheet can use the sell-off to make gross pension contributions to both get cash out of the company tax-efficiently and take advantage of the market at a discount. We are coming to the end of the tax year in Britain and high earners have the opportunity to take advantage of the market sale by squirrelling away up to £160,000 (at a net cost of £128,000) in a tax free environment if hitherto they have neglected the leniency of the UK pension system - which may not last long if March 11th's announcements change things.

The speed of the current correction is likely to see not a U-shaped recovery but a V-shaped one, leading US indices to new records again. If governments were concerned about a slow-down in the global economy before this virus, how are they feeling now? This means stimulus measures will remain in place for longer or even be extended. When the impact of the virus abates, the US market in particular will fly. So will the FTSE250. It has had its legs knocked from under it by the virus like everything else but is flat over the last 12 months.

FTSE100, 20 years - Why bother investing in a FTSE100 tracker? (Source: investing.com)

FTSE250, 12 months (Source: BigCharts.com)

One month ago one company started a share price trajectory which was parabolic: **Tesla**. Its share price went from $566 on January 28th, the day before it announced (after hours) earnings above analyst expectations, to $640 on January 30th, to $917 on Feb 19th.

The exponential rise reversed last week but before the decline it is staggering to consider that Volkswagen, the world's most prolific car producer, sold nearly 11 million vehicles in 2019 compared to Tesla's 367,500 yet a week ago Volkswagen's market capitalisation was $84 billion and Tesla's was $135 billion. Tesla is so far ahead of other motor manufacturers in terms of the readiness to meet consumer expectations for a cool, smooth, long-distance driving experience 'on charge'. Those investors and analysts who were readily writing the company off for its huge indebtedness were handed a harsh harsh lesson as the company sprung a surprise with its latest set of results. These unexpectedly supported a turnaround from a $702 million loss in Q1 2019 to a small profit in Q3. Tesla's next earnings announcement on April 22nd will doubtless be impacted by the corona virus but given the manufacturer's ability to surprise, don't count on it. As more people consider their travel options, Tesla could find they have been inundated with orders by frustrated stay-at-home public transport commuters.

It is likely we could actually be close to a bottom for these markets now. Despite the bond market foretelling the threat of profound recession from the virus, two **charts** point to market hysteria and over-reaction. The first is the VIX:

VIX, 12 months (Source Albert Lu, Sprott Media & stockcharts.com)

The second is the **iTraxx** index. iTraxx is a collection of indicies for the credit default swap market in Europe, Australia, and Asia. They allow market makers in the swaps market to take the other side of trades for a short period. As Roelof-Jan Van Den Akker explains on his Twitter account: "[The main iTraxx index] tested the horizontal resistance around 59.50 and is topping below this resistance. This confirms that we are close to a bottom and the markets are in a panic state…"

iTraxx 12 months (Source: Roelof-Jan Van Den Akker)

Favoured investment plays:

Nil risk:	
Cautious risk:	Cash
Balanced risk:	Managed / Multi-asset funds, Corporate bonds
Market risk:	**UK 250 equity**
Adventurous risk:	**Asia, US equity**, **European equity**
Speculative risk:	**Technology, Healthcare, China, India, Other EM, Gold/Silver**

Disclosure:

Nicholas Chappell has the following personal investment exposure: Technology (all US) 19%, China 5%, Asia 13%, Global Equity 28%, European equity 4%, UK equities 14%, US equities (other than Tech) 6%, Emerging Market equity 7%, Precious metals 4%

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